BUDGET DOCUMENT # 11

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY MANAGER DEBRA FIGONE
MAYOR CHUCK REED

FROM: Councilmember Sam Liccardo
Councilmember Nancy Pyle

SUBJECT: **BUDGET DOCUMENT—QUESTIONS FOR THE CITY MANAGER REGARDING RDA BUDGET**

DATE: November 12, 2009

Approved [signatures] Date 11-12-09

Although it is unusual for the Council to pose questions to the City Manager during the Redevelopment Agency budget process, the economic challenges we face force us to examine the broader impacts of RDA budgetary decisions on City services and operations. It was unusual, for instance, for City Manager Debra Figone to speak in front of Council last Monday at an RDA study session. Neither we nor our colleagues took the opportunity to question the City Manager or her staff concerning many of these issues, so we seek to do so now:

Questions for the City Manager:

Sources of Financing Beyond the Affordable Housing Fund

- Can the City identify other capital funds not likely to be exhausted in the next two to three years—such as the Rule20A/B funds, Sanitary Sewer Capital Funds, transportation impact fee funds, transportation area plan funds (i.e., those developer fees collected to fund the 101 interchanges at Mabury and Oakland Road, or the Montague improvements in North San Jose)—to relieve the burden on the Housing Fund from bearing the full brunt of the $75 million state "take"?
- Can any bonds be issued or financing leveraged from any of these funds?

Shifting Funding Responsibilities to the City

In response to Councilmember Liccardo's questioning on Monday about where the RDA would find the funds to cover contingencies that might cost the Agency more than it could cover from any projected ending fund balance, the Executive Director responded that first he would look to have the City take some obligations off of the Agency's books. He twice made reference to the Convention Center bond obligations, which are projected to cost $14.7 million this year, and the 4th Street Parking Garage (another $ 3.4 million in each fiscal year).

- If that $14.7 million obligation were thrust upon the City, would the City have any sources outside of the General Fund that could pay for it? In other words, would we simply be making a $96 million deficit into a $111 million deficit?

- Historically, how is it that the City came to be the issuer of debt to finance the construction of the Convention Center and parking structures such as the 4th Street garage? Why did the RDA commit to pay for the annual cost of that financing?

- If any event triggered such a severe cash flow problem at the Agency (e.g., if JP Morgan required substantial "pay down" of the $100 million debt to extend its letters of credit, or if we confirm that state law prohibits RDA borrowing an amount from the Housing Fund in Year 2 in excess of the $12.8 million state "take" in that year) how much warning would the City need to have in order to avoid it's own cash flow problems in paying off bonds?

Impacts on Affordable Housing Projects and Developers

- Within the loosely-defined "pipeline" of affordable housing projects, how many projects involve non-profits or other affordable housing developers who have already invested at least $300,000 in predevelopment costs ("soft costs") in reliance on an assurance that the Housing Department would support their application for funding before the Council?

- In those projects, how much would it cost, in the aggregate, to provide sufficient funding to keep the projects viable? That is, what would it cost to "take down" land, or to perform some other intermediate step that will ensure that developer will not have to walk away from the project and write off the loss?

Financial Market's Interest in Financing the Housing Department's Contribution to RDA

- How receptive do lenders appear to be to efforts by the Housing Department to finance the $40 million contribution to RDA in this fiscal year? The $35 million in the next fiscal year?

Obligations to the County

- What implications, if any, should we anticipate to the City's General Fund if the County insists on the RDA's full payment of the roughly $28 million in obligations in this fiscal year? In other words, if negotiations break down, will the RDA or General Fund be automatically obligated to pay a 10% interest on any deferred payment? What is the anticipated source of funds for that payment?